

**Improvements Are Needed in the Oversight
and Administration of the Low-Income
Taxpayer Clinic Program**

May 2003

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

May 29, 2003

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed in the Oversight
and Administration of the Low-Income Taxpayer Clinic Program
(Audit # 200240072)

This report presents the results of our review to determine if the Internal Revenue Service's (IRS) Low-Income Taxpayer Clinic (LITC) Program was meeting the intent of the Congress. Specifically, we focused on whether the IRS made taxpayers aware of the Program and how the IRS ensures LITCs were operating as intended. This review is part of our discretionary audit coverage of the IRS' Wage and Investment Division and is included in our Fiscal Year (FY) 2003 Annual Audit Plan.

Advocates of low-income taxpayers have reported to the Congress that the tax laws have many provisions that target low-income taxpayers. However, despite these many provisions, a misconception exists regarding the complexity of the tax law for these low-income taxpayers. This misconception is the belief that the tax rules and required forms are simple, making tax counseling and assistance unnecessary, and that low-income taxpayers are not examined, so they do not need legal assistance for their tax issues. According to the National Taxpayer Advocate, taxpayers without access to representation receive different and less favorable results in the tax system than those who are represented by a tax professional. Representation before the IRS not only protects taxpayers' rights, but it also helps in explaining tax responsibilities to taxpayers.

To address the concerns raised by advocates of low-income taxpayers, the Congress gave the IRS the responsibility, in the IRS' Restructuring and Reform Act of 1998

(RRA 98),¹ to provide matching funds to organizations that provide legal assistance to low-income taxpayers in controversies² with the IRS or inform individuals for whom English is a second language of their tax rights and responsibilities. Since the passage of the RRA 98, the IRS developed the LITC Program and, during FY 1999, provided \$1.5 million to 34 clinics in 19 states. This effort continues to grow each year because the IRS solicits and reviews applications from clinics that wish to participate in the Program. This growth effort has resulted in the IRS providing \$7 million to 127 LITCs in 42 states and the District of Columbia during FY 2002, along with increased oversight and administration challenges.

In summary, the IRS needs to improve its oversight and administration of the LITC Program. Specifically, the IRS does not proactively educate low-income taxpayers of the existence of the Program when notices are sent to them about being examined or having tax delinquencies. Information is also not available to taxpayers through various IRS Customer Service functions, including the IRS' web site and toll-free telephone assistance.

Additionally, the IRS does not have an effective process to monitor the LITCs to ensure that they are operating as intended. Internal guidelines require IRS personnel to make visits (referred to as monitoring visits) to both the clinics that wish to participate in the Program and those clinics approved to participate. These visits are the primary manner by which the IRS can independently ensure LITCs will operate, or are operating, as intended. We found that of the 127 LITCs that participated in the Program during FY 2002, only 36 (28 percent) were subjected to a monitoring visit, with 15 of these visits including an in-depth review of key areas.³ The remaining 21 visits were for educational purposes to determine how much tax preparation work the LITC was doing and if it was performing outreach services. None of the 36 visits were conducted prior to approving a clinic's participation in the Program.

Finally, the IRS has not established performance measures by which the Program's success can be evaluated. Success of the Program, which is annually reported to the Department of the Treasury, is currently measured using the number of taxpayers assisted, which is self-reported by the LITCs with no independent verification performed by the IRS. LITCs are required to report the number of taxpayers assisted in both an interim and a final report. The interim report is due in May of each year, with the final report being due the following March.⁴ As of February 2003, 37 (29 percent) of the 127 LITCs' reports were not included in the results that were provided to the Department of the Treasury. These reports were either not received from the LITCs or were misfiled by the IRS. Furthermore, no qualification was provided to the

¹ IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² Controversies include representing low-income taxpayers by providing assistance to a non-filer who has not yet been contacted by the IRS or to a taxpayer with a Collection, Examination, Appeals, or Tax Court matter.

³ Key areas included how the LITC accounts for funding received, measures assistance provided, etc.

⁴ The FY 2002 interim report was due in May 2002 and the final report was due in March 2003.

Department of the Treasury explaining that the information was incomplete or that it is self-reported by the LITCs and not verified by the IRS.

To ensure that the IRS' LITC Program is meeting the intent of the Congress, we recommended that the Commissioner, Wage and Investment Division, improve the oversight and administration of the LITC Program so that: 1) low-income taxpayers who may benefit from the Program are aware of the Program's existence, 2) monitoring visits are performed to ensure the LITCs are operating as intended, and 3) measures are established to allow for the accurate monitoring of the Program's performance.

Management's Response: To improve the effectiveness of the LITC Program, the IRS indicated that the management of the Program will be transferred from the Stakeholder Partnerships, Education and Communication (SPEC) function to the Taxpayer Advocate Service (TAS) in May 2003. This realignment provides a better match between the Congress' intent for the LITC Program and the mission and objectives of the TAS.

The IRS agreed with the findings and recommendations presented in this report. Specifically, the IRS plans several actions through both the SPEC and TAS functions to increase communication regarding the LITC Program. In addition, the IRS plans to provide training to Local Taxpayer Advocates and Area Directors on standards of operations for the LITCs and on how to conduct and document the on-site visits. Lastly, the IRS is developing outcome measures and a report for use by the LITCs.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**Improvements Are Needed in the Oversight and Administration
of the Low-Income Taxpayer Clinic Program**

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Improvements Are Needed in the Oversight and Administration of the Low-Income Taxpayer Clinic Program

Background

Advocates of low-income taxpayers have reported to the Congress that the tax laws have many provisions that specifically target low-income taxpayers. However, despite these many provisions, a commonly held misconception exists regarding the complexity of the tax law for low-income taxpayers. This misconception is the belief that the tax rules and required forms are simple, making tax counseling and assistance unnecessary, and that low-income taxpayers are not examined, so they do not need legal assistance for their tax issues.

According to the National Taxpayer Advocate,¹ there is a great need for client representation for low-income taxpayers since low-income taxpayers receive inadequate assistance from Internal Revenue Service (IRS) employees. Taxpayers without access to representation receive different and less favorable results in the tax system than those who are represented by a tax professional. Representation before the IRS not only protects taxpayers' rights, but it also helps in explaining tax responsibilities to taxpayers.

To address the concerns raised by advocates of low-income taxpayers, the Congress gave the IRS the responsibility, in the IRS Restructuring and Reform Act of 1998 (RRA 98),² to provide matching funds to organizations that provide legal assistance to low-income taxpayers in controversies³ (typically taxpayers being examined or who have tax delinquencies) with the IRS or inform individuals for whom English is a second language of their tax rights and responsibilities. According to the RRA 98, a clinic is treated as representing low-income taxpayers if at least

¹ Statements included in the testimony before the Subcommittee on Oversight of the House Committee on Ways and Means September 26, 1997) by the Executive Director of the Community Tax Law Project in Richmond, Virginia, currently the National Taxpayer Advocate.

² IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

³ Controversies include representing low-income taxpayers by providing assistance to a non-filer who has not yet been contacted by the IRS or to a taxpayer with a Collection, Examination, Appeals, or Tax Court matter.

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90 percent of the taxpayers represented by the clinic have incomes which do not exceed 250 percent of the poverty level and amounts in controversy are \$25,000 or less. See Table 1 below.

Table 1 – 2001 Income Ceilings

Size of Family Unit	Income Ceiling (250% of Poverty Guidelines)
1	\$21,475
2	\$29,025
3	\$36,575
4	\$44,125
5	\$51,675

Source: The IRS' 2002 Grant Administration Package and Guidelines (Publication 3319).

According to the RRA 98, it was believed that the tax services provided by these clinics would greatly improve low-income taxpayer compliance with the Federal tax laws and that these clinics should be encouraged. In the 2002 Fiscal Year (FY) Annual Report to the Congress, the National Taxpayer Advocate stated that, “funding for low-income taxpayer clinics under Internal Revenue Code (I.R.C.) Section (§) 7526 and the provision of free or nominal fee tax representation is a significant step toward a more equitable system.”

Since the passage of the RRA 98, the IRS developed the LITC Program and, during FY 1999, provided \$1.5 million to 34 clinics in 19 states. The effort continues to grow each year because the IRS solicits and reviews applications from clinics that wish to participate in the Program. These applications include items such as: 1) background information including the nature of the organization, experience in coordinating an LITC Program or delivering services to English as a Second Language taxpayers, and quality of management staff; 2) a Program plan that includes the proposed assistance to be provided, Program goals, plans for raising matching funds, etc.; and 3) budget and financial information including a budget narrative explaining the expenses associated with the LITC's operation, which will be paid out of matched funding.

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Upon the IRS' review and approval of the application, it awards matched funding (i.e., provides funding equal to what the LITC is providing) to the LITC. This growth effort has resulted in the IRS providing \$7 million to 127 LITCs in 42 states and the District of Columbia⁴ during FY 2002, along with increased oversight and administration challenges. Table 2 below provides the annual funding levels, number of clinics, and number of states these clinics were in since the Program's inception. Table 3 identifies the number of LITC clinics by state for FY 2002.

Table 2 – Funding and Clinic Participation by Fiscal Year

Fiscal Year	Number of Clinics	Number of States	Amount of Funding
1999	34	19	\$1.5 million
2000	70	33	\$4.4 million
2001	102	39	\$6 million
2002	127	43	\$7 million

Source: The IRS' Grants Administration Office.

Table 3 – Fiscal Year 2002 Clinics by State

State	Number of Clinics	State	Number of Clinics	State	Number of Clinics
AK	1	KY	2	OH	4
AL	1	LA	2	OK	2
AR	1	MA	5	OR	2
AZ	2	MD	2	PA	4
CA	13	ME	1	RI	1
CO	1	MI	4	SC	1
CT	2	MN	2	TN	1
DC	3	MO	3	TX	5
FL	7	MS	2	VA	3
GA	3	NC	2	VT	1
HI	2	ND	1	WA	2
IA	1	NJ	5	WI	2
ID	1	NM	2	WV	2
IL	6	NV	1		
IN	4	NY	15		

Source: The IRS' Grants Administration Office Management Information System.

⁴ The District of Columbia is included in the table with the states.

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At the time of our review, the Acting IRS Commissioner decided that the oversight and administration of the LITC Program should be transferred to the IRS' Taxpayer Advocate function. Transferring oversight to the Advocate was seen as a better way for the IRS to serve qualified low-income taxpayers. The target date for the official transfer was initially March 1, 2003.

The audit was conducted from September 2002 to January 2003 at the IRS' National Headquarters Office of Grants Administration and at LITCs in Maine and Connecticut. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Improvements Are Needed to Ensure the Low-Income Taxpayer Clinic Program Is Meeting the Intent of the Congress

The IRS needs to improve its oversight and administration of the LITC Program to ensure that the Program is operating as intended by the Congress. Specifically, the IRS:

- Does not proactively educate low-income taxpayers on the existence of the Program.
- Does not have an effective process to monitor LITCs to ensure that they are operating as intended.
- Has not established performance measures by which the Program's success can be evaluated.

The IRS does not proactively educate low-income taxpayers on the existence of the Program

The goal of the IRS' redesign efforts for the Wage and Investment (W&I) Division was to build a new organizational structure that provides more *pre-filing* (i.e., actions the IRS takes prior to a taxpayer filing a tax return) education and assistance to W&I taxpayers to enable them to understand and satisfy their tax responsibilities. The IRS found that many of the tax problems faced by W&I taxpayers have less to do with tax evasion and more to do with a misunderstanding of their tax obligations due to education and communication issues.

The IRS' Stakeholder Partnerships, Education, and Communication (SPEC) function is responsible for

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proactively serving the *pre-filing* needs of W&I taxpayers. The SPEC function primarily focuses its educational and assistance efforts on four under-served segments of W&I taxpayers – low-income, elderly, multi-lingual, and disabled. As such, oversight and administration of the LITC Program was assigned to the IRS' SPEC function.

While the IRS has committed to proactively educate taxpayers, it does not provide options to educate low-income taxpayers who could possibly benefit from the assistance of a clinic within the LITC Program. Specifically, the IRS does not proactively educate low-income taxpayers when notices are sent to them about being examined or having tax delinquencies. In addition, information is not available to taxpayers through various IRS Customer Service functions, including the IRS' web site and toll-free telephone assistance.

IRS internal guidelines, along with Publication 3319, state that the clinics that participate in the LITC Program are to be responsible for publicizing the Program to eligible low-income taxpayers. One primary means by which LITCs are to publicize the Program is to include brochures, posters, and other material in IRS walk-in Taxpayer Assistance Centers (TAC). We found that this means of publicizing the Program is not being consistently used by the LITCs. For the 106 TACs located within the vicinity of the 127 LITCs that participated in the Program during Calendar Year 2002, only 36 (34 percent) reported having LITC Program information available.

IRS SPEC management indicated that proactive publicizing of the Program has been limited because of: 1) increased mail costs to include a stuffer with all notices; 2) an IRS Chief Counsel ruling that prohibits the IRS from including a flyer in initial mailings to low-income taxpayers without a disclaimer and a listing of other known reputable referral agencies (i.e., local bar associations); and 3) reluctance by the LITCs to be able to handle an increased traffic of clients that would result from publicity efforts, potentially creating a need to turn taxpayers away. To assess whether this reluctance exists, we randomly contacted 20 LITCs, of which 18 responded to our inquiry. Of the 18 clinics

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responding, 17 stated that they would support IRS efforts to publicize the LITC Program, as they would be able to handle additional clients.

The IRS does not have an effective process to monitor LITCs to ensure that they are operating as intended

The IRS' internal guidelines require IRS personnel to make visits (referred to as monitoring visits) to both the clinics that wish to participate in the Program and those clinics approved to participate. These visits are the primary manner by which the IRS can independently ensure LITCs will operate, or are operating, as intended. The visits are to review the grantees' internal control procedures and business management capabilities.

We found that of the 127 LITCs that participated in the Program during FY 2002, only 36 (28 percent) were subjected to a monitoring visit; however, none of these visits were conducted prior to a clinic being approved to participate in the Program. For the 36 monitoring visits conducted, 15 included an in-depth review of key areas such as clinic accounting, measuring assistance provided, etc. The remaining 21 were classified as educational to determine how much tax preparation work the LITC was doing and if it was performing outreach services. In addition, for the 36 visits that were conducted, there was no consistent approach followed by IRS personnel visiting these LITCs and then documenting the results of each visit.

The issue of the need for IRS improvements in the monitoring of the LITC recipients by performing site visits was previously brought to management's attention in a November 2001 Treasury Inspector General for Tax Administration (TIGTA) audit report.⁵ Specifically, we reported that the IRS was not consistently conducting site visits. Although the IRS planned to visit 19 of the 102 LITCs participating in FY 2001, management stated no visits were conducted due to inadequate resources.

⁵ *The Internal Revenue Service Should Continue to Make Improvements to the Low-Income Taxpayer Clinic Grant Program* (Reference Number 2002-10-024, dated November 2001).

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In a subsequent follow-up review, we reported in May 2002⁶ that the IRS should periodically verify the accuracy of the financial and program reports submitted by the LITCs. This reported information could be verified either by performing site visits or by requesting additional documentation to support the data included in the reports.

To address recent issues regarding the need to improve monitoring visits, responsible SPEC management noted that insufficient resources again contributed to the inability to adequately perform monitoring visits during FY 2002. As of February 2002, the SPEC organization had 438 employees nationwide; however, only 7 employees were assigned to work in the IRS' Grants Administration Office that is responsible for conducting the monitoring visits.

The IRS has not established performance measures by which the Program's success can be evaluated

The Government Performance and Results Act of 1993 (GPRA)⁷ states that agencies should establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity. However, our review identified that the IRS has not established measurements by which the LITC Program's success can be evaluated. Success of the Program, which is included in an annual report provided to the Department of the Treasury, is currently measured using the number of taxpayers assisted. This information is self-reported by the LITCs, with no independent verification performed by the IRS to ensure the accuracy of the LITCs' reporting.

LITCs are required to report the number of taxpayers assisted in both an interim and a final report. The interim report is due in May of each year, with the final report being due the following March. As of February 2003, 37 (29 percent) of the 127 LITCs' reports were not included

⁶ *Increased Monitoring of the Low-Income Taxpayer Clinics Is Needed to Ensure Compliance With the Grant Terms and Conditions* (Reference Number 2002-10-085, dated May 2002).

⁷ Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285.

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in the results that were provided to the Department of the Treasury. These reports were either not received from the LITCs or were misfiled by the IRS. Furthermore, no qualification was provided to the Department of the Treasury explaining that the information was incomplete or that it is self-reported by the LITCs with no independent verification done by the IRS.

The issue of the need for IRS improvements in the analysis of the information reported by LITCs was previously raised in a November 2001 TIGTA audit report.⁸ The report discussed that the IRS captures data provided in the reports received from the LITCs detailing the number of taxpayers assisted. We noted that these reports should be closely analyzed to ensure that grant funds had been expended and matched appropriately and that the goals and objectives of the Program were being met. Additionally, we noted that the Program office should analyze the reports to help identify potential issues at the LITCs. This would have helped in determining which clinics to visit to ensure the information provided in the reports was accurate.

When discussing performance measures during our current review, responsible SPEC function management told us why yearly goals have not been established to measure the success of the LTC Program. Specifically, they noted that discussions on this issue have been held with the IRS' Grants Advisory Board.⁹ However, SPEC function management explained that defining what success is in the LTC Program is not an easy task and that once it is defined, systems have to be in place to measure it.

⁸ *The Internal Revenue Service Should Continue to Make Improvements to the Low-Income Taxpayer Clinic Grant Program* (Reference Number 2002-10-024, dated November 2001).

⁹ The Grants Advisory Board was created to provide input to the Grant Office's operational decisions, to review the process by which future funds are granted, and to write or develop policies that will ensure consistency. The Board is comprised of representatives from the IRS' SPEC function, Chief Counsel, Wage & Investment Division Communications & Liaison, Taxpayer Advocate Service, and Tax Exempt and Government Entities (TE/GE) Division.

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Effect on the LITC Program

Without improvements to the oversight and administration of the LITC Program, many low-income taxpayers who could benefit from this Program may not be aware of the Program's existence. Our analysis of IRS tax return filing information for Tax Year 2001 identified that out of a total population of over 127 million low-income taxpayers, over 62 million (49 percent) fall under the poverty guidelines established for the LITC Program (see Appendix IV for more detailed information on our methodology). Furthermore, Census data¹⁰ for Calendar Year 2000 identified over 46 million taxpayers who were classified as speaking a language other than English.

Without the implementation of an effective monitoring and measurement process, the IRS has no assurance that the LITC Program is meeting the intent of the Congress, including obtaining reliable information to ensure that grant funds are being used appropriately and that clinic recipients are complying with the terms and conditions of the Program.

Recommendations

To ensure that the IRS' LITC Program is meeting the intent of the Congress, the Commissioner, W&I Division, should ensure that:

1. Low-income taxpayers who may benefit from the Program are aware of the Program's existence through various IRS communication channels, including the toll-free customer service number and web site.

Management's Response: Both the SPEC function and the Taxpayer Advocate Service (TAS) are providing increased communication and marketing/outreach efforts for LITCs.

The SPEC function is pursuing the inclusion of LITCs in community coalitions serving low-income taxpayers and informing key external partners about local clinics in support of the planned TAS marketing and outreach efforts.

¹⁰ U.S. Census Bureau, Census 2000 Summary File.

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The TAS has completed several actions to address this issue and plans additional initiatives during 2003. Efforts include articles on the LITC Program within the Taxpayer Advocate's irs.gov Internet site and a new brochure to be used for LITC marketing and outreach efforts. The TAS also developed talking points and tools for IRS employees to use in outreach activities and to help educate employees about LITCs.

The TAS is redefining the standards of operation for clinics participating in the Program. One of the standards addresses effective publicity/marketing efforts directed towards target audiences. The local Taxpayer Advocates will also attend mandatory training on LITCs that will define program responsibilities, outreach requirements, and standards for site assistance visits.

2. Monitoring visits are performed both prior to and subsequent to participation in the LITC Program. In addition, a consistent approach is needed when documenting these visits.

Management's Response: The TAS will coordinate and periodically make onsite assistance visits to clinics. Standards of operations for LITCs are being developed and clinics will receive training on these standards. Standards include internal controls, tax library, networking, mentoring programs, and qualified tax expert requirement. The TAS will train local Taxpayer Advocates and Area Directors on the standards of operations and on how to conduct and document the on-site assistance visits.

3. Measures are established to allow for accurate monitoring of the Program's performance.

Management's Response: The Grant Administration Advisory Board, formed early in FY 2002, began developing outcome measures and a reporting format for use by LITCs. The TAS will develop LITC measures and provide training on them at the annual LITC conference. Measurements will also be stressed during on-site assistance visits.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to determine if the Internal Revenue Service's (IRS) Low-Income Taxpayer Clinic (LITC) Program was meeting the intent of the Congress by ensuring that taxpayers who could benefit from the LITCs were made aware of the Program and that the LITCs were operating as intended. Specifically, we:

- I. Identified the procedures that the IRS had in place to ensure that taxpayers who could benefit from the LITCs are aware of the Program.
 - A. Reviewed the Internal Revenue Manual (IRM) for procedures that the IRS had for publicizing the LITCs in the Program.
 - B. Determined what information was included with Collection, Examination, and Appeals notices (or any types of IRS actions which would constitute a controversy with the IRS) that are mailed out to taxpayers. Contacted National Headquarters analysts for the Collection, Examination, and Appeals functions to determine if LITC staffers were included with the taxpayer notices from these areas.
 - C. Determined if LITC information was available at Taxpayer Assistance Centers (TAC) by polling the 106 TACs that were located in the vicinity of the 127 LITCs that participated in the Program in Fiscal Year 2002.
 - D. Conducted site visits to LITCs in Portland, Maine, and Hamden, Connecticut, and one telephone call to the Brooklyn, New York, LITC (selected for proximity to the audit team) and determined how they promoted the Program and if the LITCs had staffers that advertised their clinics included with any IRS notices.
 - E. Determined if the IRS made the LITC telephone numbers and locations available to taxpayers through its toll-free number or its web site (*Digital Daily*).
- II. Identified the process that the IRS had in place to ensure that the LITCs were operating as intended by the Congress.
 - A. Reviewed the IRM for procedures that the IRS had on monitoring the LITCs that participate in the Program.
 - B. Obtained and reviewed the case documents for all 36 monitoring visits in Calendar Year 2002 to determine if the review included outreach efforts and a determination of the number of English as a Second Language taxpayers.

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- III. Determined how the IRS measured the success of the LITC Program.
 - A. Interviewed management to determine how the success of the LITC Program is measured. Specifically, determined the process of deobligation and reobligation of awarded grant funds.
 - B. Obtained and reviewed all annual reports for 2001 and all interim reports for 2002 submitted by the LITCs to determine the number of taxpayers assisted by the LITCs.
 - C. Contacted the three LITCs selected in Objective I.D. above to determine how they tracked the number of taxpayers, etc.
- IV. Identified the number of low-income taxpayers that could be in controversy with the IRS and which LITCs could service nationwide to attempt to quantify the number of people that could have benefited from the Program.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Deputy Commissioner, Wage and Investment Division W
Director, Customer Assistance, Relationships, and Education W:CAR
Director, Field Operations W:CAR:SPEC:FO
Director, Stakeholder Partnerships, Education, and Communication W:CAR:SPEC
Grants Administration Manager W:CAR:SPEC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:AR:M
Audit Liaison: Program/Process Assistant Coordinator, Wage and Investment Division W:HR

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer burden – Potential; over 62 million taxpayers affected (see page 4).

Methodology Used to Measure the Reported Benefit:

We performed nine queries using the 2002 Return Transaction File (RTF)¹ files (these files contain 2001 tax data) and captured all taxpayers meeting the following criteria:

Criteria ²	Number of Taxpayers
A 1-person household with an adjusted gross income (AGI) less than or equal to \$21,475.	32,796,282
A 2-person household (primary and secondary taxpayers) with an AGI less than or equal to \$29,025.	7,097,313
A 2-person household (primary taxpayer and 1 dependent) with an AGI less than or equal to \$29,025.	7,322,256
A 3-person household (primary and secondary taxpayers and 1 dependent) with an AGI of less than or equal to \$36,575.	2,757,057
A 3-person household (primary taxpayer and 2 dependents) with an AGI of less than or equal to \$36,575.	5,380,853
A 4-person household (primary and secondary taxpayers and 2 dependents) with an AGI of less than or equal to \$44,125.	3,453,501
A 4-person household (primary taxpayer and 3 dependents) with an AGI of less than or equal to \$44,125.	1,278,229
A 5-person household (primary and secondary taxpayers and 3 dependents) with an AGI of less than or equal to \$51,675.	1,949,422
A 5-person household (primary taxpayer and 4 dependents) with an AGI of less than or equal to \$51,675.	414,745
Total:	62,449,658

¹ The RTF contains line items transcribed during return processing and other fields such as math calculations and accompanying schedules and forms.

² The income levels represent the criteria used by the IRS to determine taxpayer eligibility for representation under the LITC Program. These income ceilings are listed in the IRS' 2002 Grant Application Package and Guidelines (Publication 3319).

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We used the 2001 Poverty Guidelines, updated annually by the Department of Health and Human Services, to determine the amounts of the AGIs and corresponding family unit size when requesting data from the RTF files. The 2002 RTF files have a total population of 127,010,808 and are available through the Treasury Inspector General for Tax Administration's Data Center Warehouse. Our analysis of IRS tax return filing information for Tax Year 2001 identified that out of a total population of over 127 million low-income taxpayers, over 62 million (49 percent) fall under the poverty guidelines established for the LTC Program.

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Appendix V

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

MAY 20 2003

OFFICE OF TREASURY
INSPECTOR GENERAL
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2003 MAY 20 P 2:01

FOR TAX ADMINISTRATION

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – Improvements Are Needed in the Oversight
and Administration of the Low-Income Taxpayer Clinic Program
(Audit # 200240072)

I reviewed your report on our Low-Income Taxpayer Clinic (LITC) Program and noted that you recognized the increased oversight and administration challenges brought about by an increase from the original 34 clinics in 1999 to 127 clinics in 2002. To improve the effectiveness of the program, the Acting Commissioner of Internal Revenue decided in early January 2003 to transfer the management of the LITC Program to the Taxpayer Advocate Service (TAS) Office. The transfer of program responsibilities from the Stakeholder Partnerships, Communication and Education (SPEC) function in Wage and Investment Division to TAS is scheduled for May 2003. This realignment provides a better match between the Congress's intentions for the LITC Program and the mission and objectives of TAS.

The National Taxpayer Advocate (NTA) met recently with members of your staff to discuss her vision for the LITC Program. The TAS has established transition teams to work with the LITCs to enhance both the program and the way IRS administers it. The effort includes defining the roles and responsibilities of Local Taxpayer Advocates, Territory Managers, and others involved in the LITC grant program. In addition, the NTA plans to renegotiate existing Service Level Agreements with the Operating Divisions and Appeals to include and address their responsibilities in the LITC Program.

We agree with your first recommendation to further publicize the existence of the LITC Program. However, Internal Revenue Code section 7526, added in 1998, authorizes LITCs but does not specifically authorize promotional activities. As a result, and as acknowledged in your report, IRS was concerned with possible ethics violations and that unfocused publicity might generate demand for service that would overwhelm the capacity of smaller LITC operations.

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Based on these concerns and in conformance with a May 16, 2000, Associate Chief Counsel (General Legal Services) opinion, in early 2001, IRS provided an opportunity for LITCs to publicize their services by supplying IRS Taxpayer Assistance Centers with brochures or posters. The LITCs were advised that these materials must include specific disclaimer language that addressed the fact that clinics are partially funded by IRS and that use of a clinic does not imply a preferential relationship with the IRS. In practice, very few LITCs took advantage of this opportunity.

Publicity about specific LITCs via toll-free or the IRS website was also considered at that time and determined to be administratively unfeasible, in part due to the burden of monitoring and updating specific clinic information, as well the suggestion in the above referenced GLS opinion that if IRS chose to distribute LTC referral information, it should also refer taxpayers to other organizations providing similar services to low income taxpayers.

However, we agree with the need to increase IRS communications regarding the LTC program. Specific SPEC and TAS plans are described in more detail in the attachment.

We also agree with recommendations two and three on assistance visits and performance measures. The TAS plans corrective actions, including redefined standards of operations and the development of measures.

Our corrective actions are detailed in the attachment. If you need additional information, please let me know or contact Mark Pursley, Director, SPEC, at (404) 338-8143.

Attachment

Improvements Are Needed in the Oversight and Administration of the Low-Income Taxpayer Clinic Program

Attachment

Our comments on each of your recommendations are as follows:

RECOMMENDATION 1

To ensure that the IRS' LITC Program is meeting the intent of the Congress, the Commissioner, W&I Division, should ensure that low-income taxpayers who benefit from the Program are aware of the Program's existence through various IRS communication channels, including the toll-free customer service number and website.

CORRECTIVE ACTION 1 (Wage and Investment, SPEC)

SPEC is pursuing the inclusion of LITCs in community coalitions serving low-income taxpayers. It will inform key external partners about local clinics in support of the TAS marketing and outreach efforts outlined below. We will also reassess the feasibility of providing toll-free customer service representatives access to information that would enable them to respond to taxpayer requests for the name and phone number of LITCs located in their state.

IMPLEMENTATION DATE

No implementation date will be established. SPEC's efforts are ongoing and will continue as the community coalition base expands throughout the country.

RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Communication and Education

CORRECTIVE ACTION 1 (TAS)

The TAS completed several actions to address this issue and plans additional initiatives during 2003. The NTA recently added articles on the LITC program within the Taxpayer Advocate *irs.gov* Internet site and under the "Taxpayer Rights" section. Unfortunately, the targeted population often does not have Internet access. The TAS created a new brochure to be used for LITC marketing and outreach efforts. It will be available to the LITCs and to IRS employees. The TAS also developed talking points and tools for IRS employees to use in outreach activities and to help educate employees about LITCs. These items will be available in June 2003. The TAS is redefining the standards of operation for clinics participating in the program. One of the standards addresses effective publicity/marketing efforts directed towards our targeted audiences. The Local Taxpayer Advocates will also attend a mandatory training session on LITCs at the TAS Tax Law and Technical Training Symposium in August 2003. The training session will define program responsibilities, outreach requirements, and standards for site assistance visits. Best practices on effective marketing and mentoring programs among clinics will be identified and shared. The TAS will work with Operating Divisions to ensure clinic materials are displayed in our local offices.

Improvements Are Needed in the Oversight and Administration of the Low-Income Taxpayer Clinic Program

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IMPLEMENTATION DATE

No implementation date will be established. Standards and expectations were established for outreach, which the NTA views as an ongoing effort.

RESPONSIBLE OFFICIAL

National Taxpayer Advocate

CORRECTIVE ACTION MONITORING PLAN

Completion of these corrective actions will be monitored through normal internal control processes.

RECOMMENDATION 2

Ensure monitoring visits are performed both prior to and subsequent to participation in the LITC Program. In addition, a consistent approach is needed when documenting these visits.

CORRECTIVE ACTION

The TAS will coordinate and periodically make on-site assistance visits to clinics. Standards of operations for LITCs are being developed and clinics will receive training on these standards. Standards include internal controls, tax library, networking, mentoring programs, and qualified tax expert requirement. Service Level Agreements will be revised to ensure Operating Divisions assist in the on-site visits. The TAS will train Local Taxpayer Advocates and Area Directors on the standards of operations and on how to conduct and document the on-site assistance visits.

IMPLEMENTATION DATE

October 2003

RESPONSIBLE OFFICIAL

National Taxpayer Advocate

CORRECTIVE ACTION MONITORING PLAN

The NTA will monitor completion of these corrective actions through normal internal control processes.

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RECOMMENDATION 3

Ensure that measures are established to allow for accurate monitoring of the program's performance.

CORRECTIVE ACTION

We agree with this recommendation. The Grant Administration Advisory Board, formed in early FY 2002, began developing outcome measures and a reporting format for use by LITCs. The Board will provide TAS with the work already completed.

The TAS will develop LTC measures and provide training on them at the annual LTC conference. Measurements will also be stressed during on-site assistance visits.

IMPLEMENTATION DATE

October 2003

RESPONSIBLE OFFICIAL

National Taxpayer Advocate

CORRECTIVE ACTION MONITORING PLAN

The NTA will monitor completion of these corrective actions through normal internal control processes.